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RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
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SUBJECT: LARGEST INDIAN SUPERMARKET CHAIN GROWS IN HEART OF COMMUNIST-RULED INDIA

REF: A) 07 KOLKTA 0289 B) MUMBAI 0025

¶1. (U) Summary. "Spencer's," India's largest supermarket chain, and member of the Kolkata-based RPG Group, continues to expand in West Bengal despite the problems faced by rival Reliance Retail. Spencer's Senior Vice-President, Operations Ramesh Menon attributed this success to the fact that his company's revenues from food retailing are limited and that Spencer's was not trying to disrupt the existing agriculture supply chain unlike Reliance. When questioned about the different treatment that Reliance and Spencer's have been given, Naren Chatterjee, the Chairman of the West Bengal State Marketing Board and a representative of the Forward Bloc, which ransacked a Reliance outlet in August 2007, became noticeably uncomfortable and made similar arguments as Menon. He also stated that Spencer's representatives had promised him that they would not market agricultural goods even though they now did. He warned that he thought Spencer's food operations were illegal because they had not received a clearance, and they were being watched and could face protests in the future. Chatterjee warned that the Forward Bloc saw organized retail as a threat to the rural cooperative banking system of West Bengal and would also continue to oppose the entry of FDI because it would endanger the livelihoods of 300,000 retail intermediaries in West Bengal. End Summary.

Spencer's Expanding and Making Profits in West Bengal

¶2. (U) With 17 stores of different sizes in Kolkata alone and 20 in all of West Bengal, Spencer's Retail, India's largest supermarket chain, is going strong in the heart of Communist-governed India. Only recently on July 5, were there limited protests by local hawkers at one of its stores. Ramesh Menon, Senior Vice-President for Operations for Spencer's Retail Limited, informed Econoff that Spencer's has some of its largest operations in two Communist-governed states: West Bengal and Kerala. The chain, consisting of 400 stores in 65 cities, is part of the Kolkata-based USD 3.4 billion RPG Group. He went on to add that the company planned to add two more hypermarkets this year in Kolkata as well as smaller stores in other parts of West Bengal. Despite Menon's optimism, hawkers disrupted the inauguration of Spencer's second hypermarket in Kolkata. The hawkers' representatives said the hypermarket will rob them off their livelihood. However, the agitating hawkers were not led by the Left Front partner Forward Bloc, which is spearheading the movement against corporate retail in West Bengal, especially against Reliance Retail.

¶ 3. (U) When pressed about why the company faced little opposition in Left-governed states, Menon added that the Left's rhetoric has not translated into ground-level opposition and that is how politics operates in India. He added that Spencer's revenues from food and groceries were very small. On the question of the problems faced by Reliance Retail which had to shut down its West Bengal retail operations because of protests in September 2007 (Ref A), Menon stated that Spencer's Retail does business in a different way. He noted that Spencer's keeps a low profile in the markets that it enters, whereas Reliance always comes in with a great deal of publicity. He added that just as important is the fact the company works within the existing agriculture supply-chain and does not try to disrupt it like Reliance was trying to do. Menon appeared to be amused at the problems encountered by Reliance pointing out that the opposition that had become organized to take on Wal-Mart appears to have pointed its guns at Reliance instead; this is a view shared by other retail executives (Ref B).

Forward Bloc Says that Spencer's is Too Small to be a Threat to Traders

¶ 4. (U) When questioned by EconOff as to why the Forward Bloc, a coalition member of the Left Front, protested against Reliance Retail but not Spencer's, Forward Bloc leader Naren Chatterjee (who is also the Chairman of the West Bengal State Marketing Board [WBSMB]) appeared noticeably uncomfortable. WBSMB CEO Asok Santra, shared Chatterjee's discomfiture. They informed

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EconOff that Spencer's outlets, as well as Food Bazaar and Metro, in Kolkata are illegal because they received no clearance from the WBSMB to sell vegetables. They claimed that Spencer's representatives had promised them that they would not sell agriculture products even though they are. In his view only a small number of people go to Spencer's to purchase groceries so it is not as much of a threat as Reliance would have been. However, the Forward Bloc felt that Spencer's was expanding surreptitiously. Santra, in particular, stated that Forward Bloc cadres were watching Spencer's very closely and if its sales of food products became significant or they tried to circumvent the current agriculture distribution system, then it too will face protests. He emphasized that he had warned Spencer's in a letter.

¶ 6. (U) When pressed to answer why Reliance Retail was singled out, Santra answered that Reliance would have been a large scale operation and would have threatened the existence of the "mom-and-pop" stores that the Forward Bloc was defending. Second, Reliance would have created its own agriculture distribution system and thus endangered the existence of the 3,000 small rural markets, 300 municipal markets and 40 markets in Kolkata in addition to the Agriculture Product Marketing Committees. Third, Santra explained that Reliance would eventually start using contract farming techniques which would have led to small farmers losing their independence to decide what to produce, how to produce and what kind of inputs and seeds to use. This would have endangered the land reforms initiatives of the Communist government in West Bengal.

¶ 7. (U) Chatterjee, who is also chairman of the West Bengal state rural cooperative bank, explained that FDI, contract farming and corporate retail in agriculture will dismantle the existing rural credit chain which operates through rural, district and state cooperative banks. These banks advance working capital loans to farmers, traders and others associated with agricultural supply chain. According to Chatterjee, this rural credit system is rather efficient in West Bengal, where 85-90 % borrowers repay their loans with interest. He explained that the entrance of organized retail could diminish the role of cooperative banks because an alternative financial system led by

corporate retailers, contract farmers, and commercial banks would be competing with the cooperative banks for rural customers. He went on to note that the cooperative banking system has already been jarred by the loan waiver scheme announced by the Central government; he noted that the waiver means a loss for West Bengal's rural cooperative banks because most these loans would have been repaid.

¶18. (U) Chatterjee acknowledged that he understood that the current agriculture distribution infrastructure had problems. Santra admitted that the APMCs had been neglected for too long and more needs to be spent from the state's development budget to improve them. He agreed with Econoff that investment in the supply chain and cold storage was needed to help reduce waste and unlock value for farmers, middlemen and consumers. He mentioned that he was keen to create a joint venture in storage and the cold chain with organized retailers like Spencer's. He also envisioned creating a retailer called Bengal Fresh, which will be run as a joint venture, with the state government through the WBSMB holding the controlling stake to compete against Spencer's and the other organized retailers. He added that the joint venture partner would be with a yet to be determined private organized retailer.

¶19. (U) Chatterjee was adamant that the Forward Bloc would continue to oppose FDI in organized retail. He noted that the issue was not foreign money per say but the fact that it would endanger the livelihoods of 300,000 retail intermediaries in West Bengal, because he imagined that foreign players would bring increased automation to the supply chain. When pressed on the fact that the Forward Bloc was suddenly in agreement with the BJP on an issue, his response was that he did not know the BJP's stance on the issue.

¶10. (SBU) Comment: The continued expansion and profitability of India's largest supermarket chain in Communist-governed West Bengal, while Reliance Retail was not even able to establish a presence does raise several issues. Unanswered is the question why Reliance was singled out. Clues to this may lie in the strikingly similar statements made by Spencer's executive Menon

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and representatives of the Forward Bloc stating that the agricultural portion of Spencer's operation was small and that the company was not trying to disrupt the existing supply chain. Corruption and payoffs are known to be rampant in the existing agricultural marketing system. It is quite possible that Spencer's is buying-off the political Parties. Though, with or without the presence of Reliance, West Bengal consumers benefit from the expanding presence of organized retail. Chatterjee's comments regarding the present rural credit system, while generally disingenuous in failing to comment on the extortionate lending practices facilitated by the present system, also underlined how state political leaders are closely aligned with the many middlemen and loansharks who exploit the farmers. The entrenched financial-political interests in West Bengal, as in much of India's rural agricultural sector, perpetuates resistance to outsiders who seek to break-up the existing system. It is reasonable to conclude that the Reliance Retail constituted a direct threat to that system and was blocked. Spencer's took a more indirect approach and was able to operate.
JARDINE